

Frequently Asked Questions

FOR

TREASURY INTERNATIONAL CAPITAL (TIC) D REPORT

Questions and answers are grouped together according to the sections of the instructions to which they relate.

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I. General Instructions

I. B. Purpose of the TIC D Form

Q. What are the Treasury International Capital (TIC) reports?

- A.** The TIC family of reports collects information on the positions and transactions of U.S. residents with foreigners. The data are used in compiling the United States Balance of Payments and International Investment Position. The TIC "D" form is an addition to a set of reports that include the TIC "B", "C", "S", "SHC/SHCA", and "SHL/SHLA" reports. The purpose of the TIC D form is to gather timely and reliable data on U.S. cross-border holdings of, and transactions in, derivatives. See www.treas.gov/tic/forms.html for more information.

I. D. Who Must Report

Q. A U.S. branch of a foreign bank has futures contracts with foreign exchanges (e.g., Eurex). Are these contracts reportable?

- A.** Yes. A U.S. branch of a foreign bank is a U.S. resident for the purpose of TIC D. Therefore, a U.S. branch's future contracts with a foreign exchange are reported on the TIC D report.

Q. If an institution has \$100 billion in notional amounts of derivatives in March, but its contracts fall below that afterwards, does the institution report in June?

- A.** Yes. Once an institution meets the reporting threshold, it must continue to report for the rest of the calendar year.

Q. How should the amount of outstanding derivatives contracts be computed to check if the reporting threshold has been exceeded?

- A.** To determine if a U.S.-resident company's derivatives exceed the \$100 billion reporting threshold, aggregate the notional values of the company's derivatives on a global consolidated basis.

If the U.S. resident is a subsidiary or branch of a foreign organization, do not include the contracts of its parent or of its parent's offices located outside the United States. That is, include only the contracts of the U.S. resident company and of the U.S. entity's consolidated subsidiaries (domestic or foreign). (See next question for more details.)

Q. How should multiple U.S. subsidiaries and branches of the same foreign organization determine if they are required to report?

- A.** To determine if derivatives contracts exceed the reporting threshold, U.S. subsidiaries and branches of a foreign organization should total all of the derivatives on the books of each top-tier entity in the United States. That is, the notional values of derivatives contracts must be totaled individually for each bank or company that is a U.S. subsidiary or branch of a foreign entity. Each top-tier entity must aggregate all of the derivatives on its own books as well as the derivatives on the books of its U.S. offices and subsidiaries. Note that branches of foreign banks in the United States are treated as separate legal entities and should total contracts at the branch level.

Q. What are the consolidation reporting rules for completing TIC D?

- A.** Reporters should consolidate all of their U.S.-resident subsidiaries according to U.S. generally accepted accounting principles (GAAP); however, they should not eliminate positions with their foreign affiliates.

Q. Should separate reports be filed for activity on each futures exchange?

- A.** No. Reporters should submit one TIC D report, consolidating all of their U.S.-resident subsidiaries on the same basis as annual reports to the SEC or other regulatory reports.

Q. What should be reported when a foreign affiliate acts as a broker for the reporter on foreign futures exchanges?

- A.** Foreign affiliates are foreign residents for TIC D purposes. Reporting is required for contracts between a U.S. entity and its foreign-resident affiliates. Such contracts would be reported opposite the country where the affiliate is located even though the ultimate counterparty or exchange may be in a third country. However, any contracts or brokerage activity between foreign resident affiliates and unaffiliated U.S. residents should not be reported by the foreign affiliate's U.S. parent on TIC D because foreign entities are not part of the reporting system.

Q. Should a custodian providing accounting and valuation services for derivatives contracts report its customers' derivatives on TIC D?

- A.** No. Customer derivatives contracts should only be reported when the reporter is acting as a counterparty or transactor (such as broker, dealer, or underwriter) in the contract, but not if it is solely providing accounting and valuation services.

I. E. Accounting Issues

Q. How should foreign currency amounts be converted to U.S. dollars?

- A.** Spot exchange rates on the *as-of date* should be used to convert foreign currency amounts to U.S. dollar equivalents. These rates should be applied to the fair value amounts reported in Columns 1 and 2 for the report date. For net settlements in Column 3 during the quarter, the preferred method is to convert payments to U.S. dollars using the closing dollar exchange rates on the day of each transaction. If it is not possible to use the closing rates on the days of the payments, please contact FRBNY to discuss which rates you would use.

Q. How should cross currency derivatives contracts not involving the U.S. dollar be converted to U.S.-dollar equivalents?

- A.** For cross currency swaps which involve two currencies other than the U.S. dollar, the fair value of the contract should be entered in Column 1 or 2 using the U.S. dollar equivalent of the fair value of the purchase side of the contract.

II. What to Report

II. A. General Description of What is to be Reported

Q. Are the positions of foreign-resident clients on foreign exchanges included?

- A.** No. Positions of foreign clients with foreign exchanges are not reportable.

Q. Should U.S.-dollar denominated contracts of U.S. residents on foreign exchanges be reported?

- A.** Yes. The currency of the contract does not determine whether a contract should be reported. Report contracts between U.S. residents and foreign-resident counterparties irrespective of the currency of denomination of the contract.

II. B. Reportable Derivatives

Q. What is included in “other contracts”?

- A.** “Other Contracts” (Row 3) includes all over-the-counter contracts other than single currency interest rate and foreign exchange contracts. Examples of such contracts are credit derivatives, equity-linked derivatives, and commodity-linked derivatives that are not traded on organized exchanges.

II. D: Definition of a Foreign Resident

Q. Is a U.S. branch of a foreign bank considered a foreign entity for TIC D purposes?

- A.** No. A branch of a foreign bank located in the United States is considered a U.S.-resident entity.

A Foreign Resident is any individual, corporation, or other organization located outside the United States. A corporation incorporated outside the United States is a foreign resident even if it has no physical presence outside the United States. Foreigners/Foreign Residents include:

1. Foreign governments and any subdivision, agency or instrumentality thereof, including all foreign official nonbanking institutions, even if located in the United States (e.g., an embassy, consulate, or their diplomatic establishments of a foreign country). (However, all U.S. subsidiaries of foreign corporations are U.S. residents.)
2. Entities that have filed an IRS form W-8, indicating that the individual or entity is a nonresident alien or foreign entity not subject to certain United States information return reporting or to backup withholding rules.
3. Any corporation or other organization located outside the United States, including the branches, subsidiaries, and other affiliates of U.S. entities located abroad.
4. Individuals, including citizens of the United States, residing outside the United States.

EXCEPTION: Official international or regional organizations or subordinate or affiliated agencies thereof, created by treaty or convention between sovereign states, even if located in the United States, including the International Bank of Reconstruction and Development (IBRD or World Bank), the International Monetary Fund (IMF), and the United Nations (UN), are also considered foreign residents.

Q. Should derivatives contracts with residents of offshore U.S. territories be included on TIC D?

- A.** No. For TIC purposes, the United States is: The fifty (50) States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, and the following: American Samoa, Baker Island, Guam, Howland Island, Jarvis Island, Johnston Atoll, Kingman Reef, Midway Islands, Navassa Island, Palmyra Atoll, the U.S. Virgin Islands, and Wake Island. Therefore, derivatives contracts with counterparties located in these territories are excluded from the TIC D report. In contrast, if your company has an affiliated entity located in these territories and that entity is counterparty to derivatives contracts with foreign residents, those contracts with foreign residents should be included in TIC D.

III. Column Instructions (Part 1 and Part II)

Q. How are derivatives contracts treated that are settled by physical delivery of the underlying commodity or security?

- A.** In Columns 1 and 2 report the fair (market) values of all types of financial derivatives contracts regardless of whether they are to be settled by cash payments or physical delivery of the underlying. In many cases it is not known how the contract will be settled until it is actually exercised. In Column 3, report receipts and payments to settle financial derivatives contracts when ONLY cash is paid or received.

For example, the fair (market) values of outstanding options to buy crude oil or Treasury securities are reported in Column 1 or 2. In Column 3 report all cash payments or receipts to purchase/sell the options and to settle those contracts. However, the amount paid to exercise the option for physical delivery of the commodities or securities should NOT be reported in Column 3.

III. A. Column 1 – Gross Positive Fair Value of Derivatives with Non-U.S. Residents at End of Reporting Quarter.

Q. How is the fair (market) value of futures contracts determined if futures cash settle daily?

- A.** The fair value of a futures contract that is settled each day by cash payments (variation margin) is any residual amount in the account through which the payments are paid and disbursed. This amount is usually close to zero.

Q. How is a foreign exchange swap reported in Columns 1 and 2?

- A.** The fair value of each contract is only reported in one column. The fair market value of a contract represents either what you would receive if the contract was settled and it had a positive fair (market) value or what you would pay if it had a negative fair market value. A positive fair value should be reported in Column 1 and a negative fair value should be reported in Column 2.

III. C. Column 3 – U.S. Net Settlements during the Quarter with Non-U.S. Residents

Q. Are cash receipts and payments for option contracts reportable?

- A.** Yes. Specifically, cash payments and receipts that are premiums for the purchase or sale of options should be reported in Column 3. Final settlements or exercise of options contracts are reported when ONLY cash is paid or received. For example, the exercise of an option for the physical delivery of oil or securities is not reported, but any amounts received or paid to exercise an option to deliver foreign currencies (cash) should be reported in Column 3.

Q. When a foreign exchange option is exercised and a spot contract is issued to settle the option, is the spot contract included in net settlements?

- A.** No. Only the amount paid to settle the option is reported in net settlements. The spot contract is not reported. It is just the means used to make the payment.

Q. What would be reported on TIC D if a U.S. broker's client in Canada received \$1 million equivalent of Euros paid by the U.S. broker as profit from trading Euro contracts on a futures exchange in Germany?

- A.** If the Canadian client is not a U.S. resident, then the derivatives contracts between that client and the German futures exchange should not be reported on TIC D. Only derivatives contracts between U.S. and foreign residents, including brokered contracts, should be reported on TIC D. Since the U.S. broker serves as an intermediary for cash receipts and payments between the German futures exchange and clearinghouse and the Canadian customer, those cross-border positions should be recorded as brokerage balances on TIC Form B.

III. D. Items to Exclude from the Calculation of Net Settlements

Q. Is initial margin considered collateral or should it be reported?

- A.** Initial margin is not reportable on the TIC D report, even if in the form of cash, because it does not represent a position or transaction in derivatives.

IV. Specific Instructions for Part I

IV. A. Row Definitions for Rows 1-7

Q. How should contracts be reported that involve more than one type of derivatives?

- A.** All derivatives products should be reported (by row) according to each contract's predominant type of risk. These include *single-currency interest rate* contracts (Row 1), whose predominant risk stems from interest rates and do not involve the exchange of currencies; *foreign exchange* contracts (Row 2), whose predominant risk is from the forward purchase and sale of two or more currencies; and *Other* contracts (Row 3) whose predominant risk reflects risks other than single currency interest rate and foreign exchange.